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RECEIVED

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2009 OCT - 1
AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

October 1, 2009

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: APS COMPLIANCE WITH DECISION NO. 70667 - APS/PINNACLE WEST COMMUNICATIONS WITH
CREDIT RATING AGENCIES
Docket No. E-01345A-08-0172

Attached please find copies of Arizona Public Service Company ("APS") and Pinnacle West's available past communications with credit rating agencies as instructed per Decision No. 70667 (December 24th, 2008):

"Arizona Public Service Company shall file all currently existing communications within 10 days of the effective date of this Decision and shall file future communication on a monthly basis. The first such monthly report shall be due on February 1, 2009, and the monthly filing shall continue until the conclusion of Arizona Public Service Company's general rate case. Thereafter, Arizona Public Service Company shall make such filings on a six month basis, with the first filing due by January 1, 2010."

This monthly filing covers the communications with rating agencies from August 31, 2009 through September 30, 2009. If you have any questions or concerns please contact Susan Casady at (602)250-2709.

Sincerely,

Leland R. Snook

LS/sl

Attachments

CC: Steve Olea (unredacted)
Brian Bozzo (unredacted)
Barbara Keene (unredacted)
Terri Ford (unredacted)

Arizona Corporation Commission
DOCKETED

OCT - 1 2009



Rating Agency Communication Log

Date	Person	APS/PNW Personnel	Subject	Comment
9/4/2009	Justin Hansen, Moody's	Karen Dolyniuk	E-mail to Moody's re Coconino letter of credit	
9/4/2009	Tony Bettinelli, S&P	Jim McGill	E-mail to S&P re: meeting time	
9/4/2009	Tony Bettinelli, S&P	Jim McGill	E-mail from S&P re: meeting time	
9/17/2009	Todd Shipman (via phone), Anne Selting, and Tony Bettinelli, S&P	Don Brandt, Chris Froggatt, and Jim Hatfield	Meeting at S&P's San Francisco office	Portions of presentation are confidential
9/23/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding new PNW board member	
9/23/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding new PNW board member	
9/23/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding new PNW board member	
9/25/2009	Tony Bettinelli, S&P	Jim Hatfield and Chris Froggatt	Phone call to S&P to discuss Chris Froggatt's departure	
9/25/2009	Laura Schumacher, Moody's	Jim Hatfield and Chris Froggatt	Left voice message informing of Chris Froggatt's departure	
9/25/2009	Phil Smyth, Fitch	Jim Hatfield and Chris Froggatt	Left voice message informing of Chris Froggatt's departure	
9/28/2009	Laura Schumacher, Moody's	Chris Froggatt	Phone call to Moody's to discuss Chris Froggatt's departure	
9/28/2009	Phil Smyth, Fitch	Chris Froggatt	Phone call to Fitch to discuss Chris Froggatt's departure	
9/30/2009	Laura Schumacher, Moodys	Investor Relations	E-mail regarding Starwood Solar	
9/30/2009	Phil Smyth, Fitch	Investor Relations	E-mail regarding Starwood Solar	
9/30/2009	Tony Bettinelli, S&P	Investor Relations	E-mail regarding Starwood Solar	

McGill, James T(Z71171)

From: Dolyniuk, Karen E(J97440)
Sent: Friday, September 04, 2009 10:20 AM
To: 'Hansen, Justin'
Cc: McGill, James T(Z71171)
Subject: Series Indenture

Hi Justin! Thanks for the call this morning regarding the timing of your comments. We will anticipate getting something on Tuesday. I wanted to also let you know that bond counsel will be sending out the Series Indenture which will include the Moody's changes. We just would like to get a bit of a jump start on others seeing the proposed changes. If you have any questions, please let me know.

Karen E. Dolyniuk, CTP
Manager, Treasury Operations
Pinnacle West Capital Corporation
Phone: 602-250-5630

McGill, James T(Z71171)

From: McGill, James T(Z71171)
Sent: Friday, September 04, 2009 2:30 PM
To: antonio_bettinelli@sandp.com
Subject: Visit

Tony,
Would you please confirm the time of our visit to your office on 9/17/09. Could you also tell me who you think will be in attendance (in-person and via phone)? Thanks.

Jim

McGill, James T(Z71171)

From: Bettinelli, Antonio [Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, September 04, 2009 2:35 PM
To: McGill, James T(Z71171)
Subject: RE: Visit

Jim,

Sure. I had you down at 9:00 am on the 17th. Myself and Anne Selting will be here, and Todd Shipman will be on the phone. John Whitlock may also dial-in but it is uncertain. Who will participate on your side?

Tony

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Friday, September 04, 2009 2:30 PM
To: antonio_bettinelli@sandp.com
Subject: Visit

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Email Firewall made the following annotations

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McGill, James T(Z71171)

Subject: FW: Visit

From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Friday, September 04, 2009 2:37 PM
To: Bettinelli, Antonio
Subject: RE: Visit

Myself, Don Brandt, Jim Hatfield, and Chris Froggatt .

Jim

From: Bettinelli, Antonio [mailto:Antonio_Bettinelli@standardandpoors.com]
Sent: Friday, September 04, 2009 2:35 PM
To: McGill, James T(Z71171)
Subject: RE: Visit

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From: James.McGill@pinnaclewest.com [mailto:James.McGill@pinnaclewest.com]
Sent: Friday, September 04, 2009 2:30 PM
To: antonio_bettinelli@sandp.com
Subject: Visit

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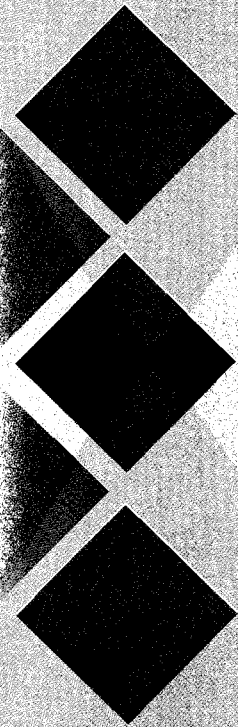
Email Firewall made the following annotations

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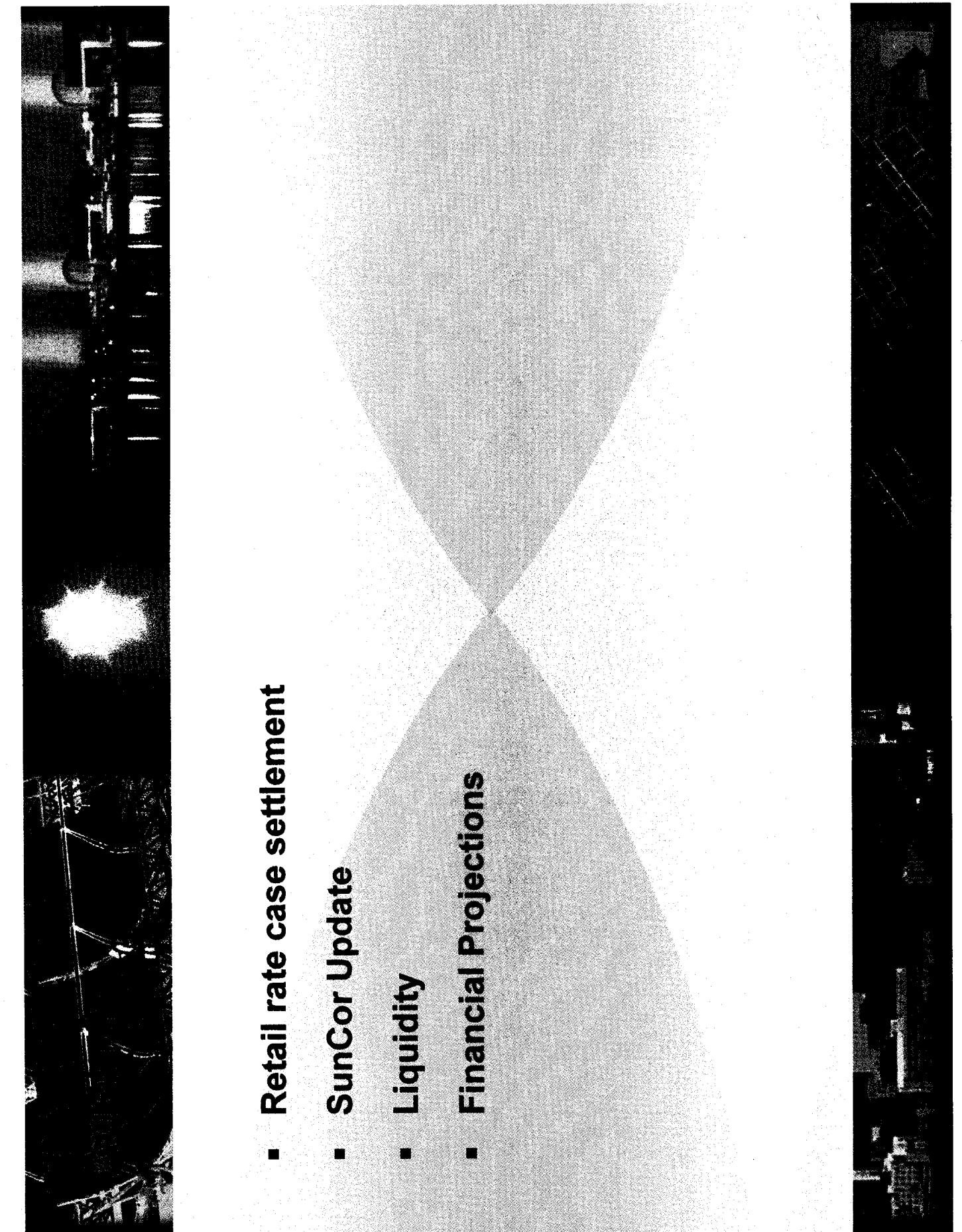


PINNACLE WEST

CAPITAL CORPORATION

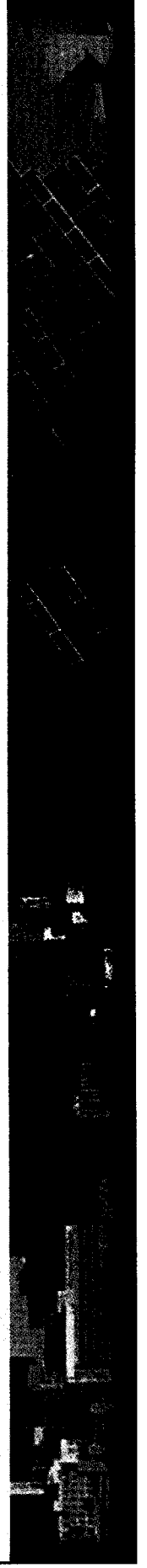
Standard and Poor's
September 2009



- 
- **Retail rate case settlement**
 - **SunCor Update**
 - **Liquidity**
 - **Financial Projections**




Retail Rate Case Settlement





Proposed settlement has number of benefits from investors' perspective.

- **Strengthens APS' financial condition and supports common dividend**
 - **Provides greater level of cost recovery and return on investment**
 - **Provides rate stability for APS customers**
 - **Allows opportunity to help shape Arizona's energy future outside continual rate cases**
 - **Continues strong APS commitment to cost control and efficiency**
 - **Provides for significant increase in energy efficiency programs**
 - **Expands renewable energy requirements and programs**
- 

Proposed revenue increases total \$230 million in 2010.

	<u>Proposed Settlement</u>	<u>APS Request</u>
Base Retail Rates –		
Annualized revenue increases (\$ millions):		
Non-fuel	\$ 196	\$ 264
Net fuel-related	11	14
Net Increase	<u>\$ 207</u>	<u>\$ 278</u>
Allowed ROE (%)	11	11.5
Base fuel rate (¢ per kWh)	3.76	3.88
Effective date	1/1/2010	10/1/2009

Line Extension Fees – 2010 - 2012 payments received to be recorded as revenues instead of contributions in aid of construction (pretax estimates):

• 2010	\$23 million
• 2011	\$25 million
• 2012	\$49 million

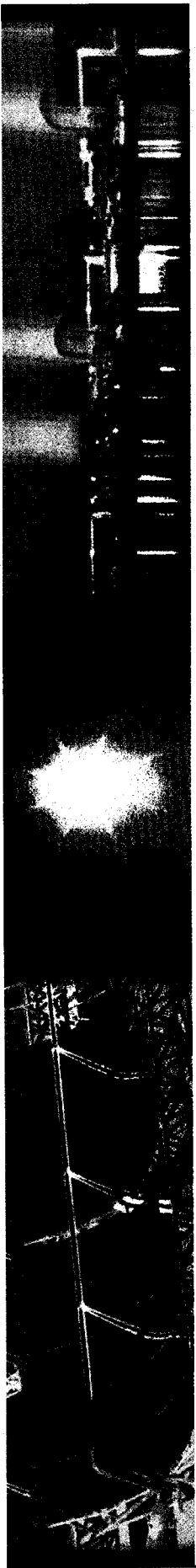
Other key financial provisions included in the proposed settlement terms.

- **Pension and OPEB Deferrals – 2011 - 2012 defer for future rate recovery differences between actual pension and OPEB costs and 2007 test year (\$24 million) as follows (pretax):**
 - ♦ 2011 deferral not to exceed lower of \$13.5 million or 50% of cost above 2007 level
 - ♦ 2012 deferral not to exceed \$29 million
- **Expense Reduction Commitment**
 - ♦ Beginning in 2010, identify additional \$10 million pretax expense reductions above \$20 million identified March 2009
 - ♦ \$30 million average annual expense reductions to continue through 2014
- **Equity Infusions**
 - ♦ APS to obtain at least \$700 million of equity infusions in 2010 through 2014

(continued)

The settling parties have agreed to expedite processing future rate cases.

- **APS may file general base rate cases on or after June 1, 2011 and June 1, 2013**
- **A base rate increase resulting from APS' next rate case may not become effective before July 1, 2012**
- **Settling parties intend to process future cases within 12 months of sufficiency findings**
- **Hearings began August 19, 2009**
- **Rate increase effective January 1, 2010**



SunCor Update





**Maximizing value of SunCor's remaining assets and
eliminating its outstanding debt.**

- **2nd quarter 2009 YTD real estate impairment, severance and related costs \$1.30 per share**
- **Eliminate SunCor's debt**
- **Produce \$80 million of cash tax benefits (estimated to be received late 2010)**
- **Reduce pretax G&A burn from \$44 million in 2008 to negligible amount after restructuring**
- **Eliminate future real estate earnings volatility**



Liquidity Update

We have sufficient liquidity and access to credit.

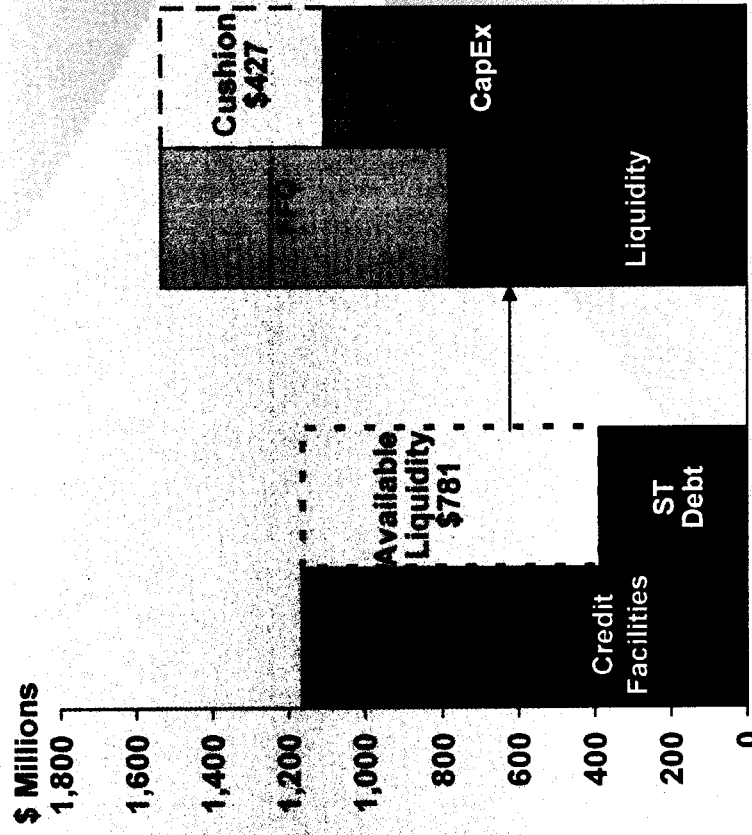
Credit Facilities

Borrower	Capacity (\$ Millions)	Matures
PNW	\$ 283	Dec. '10
APS	377	Dec. '10
APS	489	Sep. '11
	<u>\$1,149</u>	

- Solid bank group
- No MAC clauses or "clean down" provisions

Est. 2009 Cash Sources & Uses

June 30, 2009 Available Liquidity





Attachment Intentionally Omitted – Contains Confidential Information

From: Higuchi, Dene C(Z05435)
Sent: Wed Sep 30 17:40:55 2009
Subject: PNW/APS: STARWOOD SOLAR I AGREEMENT TERMINATED

Today, we issued a press release announcing termination of our purchase power agreement related to Starwood Solar I. The text of the release is included below in this message.

As always, if you have any questions about this announcement or need other information about the company, please contact me. On a separate note, Lisa Malagon has accepted another position in our company. We wish her the best in her new position.

Becky

Rebecca L. Hickman
Director of Investor Relations | Pinnacle West Capital Corporation
400 North 5th Street | Station 9998 | Phoenix, AZ 85004
Office 602-250-5668 | Fax 602-250-2789 | E-mail rhickman@pinnaclewest.com

STARWOOD SOLAR I AGREEMENT TERMINATED

PHOENIX – APS announced it has received notice from Starwood Energy Group Global, LLC that it is terminating the long-term purchase power agreement the two companies signed in May 2009. This ends plans for Starwood Solar I, the 290-megawatt concentrating solar plant (CSP), which was to be located in the Harquahala Valley, 75 miles west of Phoenix.

"APS remains committed to solar energy and we intend to aggressively respond to this development as we stay on track with our plans to increase the amount of renewable energy we provide to customers," said Don Robinson, President of APS.

Starwood Solar I was the second large-scale solar project announced by APS in the last 19 months. The first, Solana, continues to move forward. Financing for the 280-megawatt CSP plant is expected to be announced in the first half of 2010. Solana will be built 70 miles southwest of Phoenix, near Gila Bend, Ariz.

APS understands that after the major subcontractor agreements were negotiated, the size and the final risk profile of the engineering, procurement and construction contract, among other factors, were the reasons Lockheed Martin decided not to go forward.

Lockheed Martin was the engineering, procurement and construction firm that partnered with Starwood to develop the project.

As work begins on replacing the energy from Starwood Solar I, APS expects to announce before the end of the year the results of two current solicitations for renewable energy: one for small-scale generation projects and one for distributed generation.

APS, Arizona's largest and longest-serving electricity utility, serves more than 1.1 million customers throughout the state. With headquarters in Phoenix, APS is the largest subsidiary of Pinnacle West Capital Corp. (NYSE: PNW).